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ABSTRACT

The goal of the Stanley Foundation is to encourage study, research, and discussion of timely international issues in such a way as to promote understanding of and tolerance for their complexity and to contribute to a secure peace with freedom and justice. Presented are four conference reports with a common characteristic. In each case, the United States has been executing policies which have been moderately successful but which are based on broad assumptions that may no longer be valid. In some cases, the assumptions are dated. In others, they are based on a view of circumstances which is too limited or overly simplistic. The discussion topics included are: (1) "The US and the Future of Pacific Security"; (2) "The Soviet Economy and US Policy"; (3) "US Policy toward Mexico"; and (4) "The Nonproliferation Regime and the Problem Countries: Bridging the Gap." The report is illustrated with black and white photographs. (BZ)

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**US-Pacific Security**

**Soviet Economy**

**US-Mexico Relations**

**Problems in Nonproliferation**

# Report of the Twenty-Seventh Strategy for Peace, US Foreign Policy Conference

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**October 16-18, 1986**

Convened at
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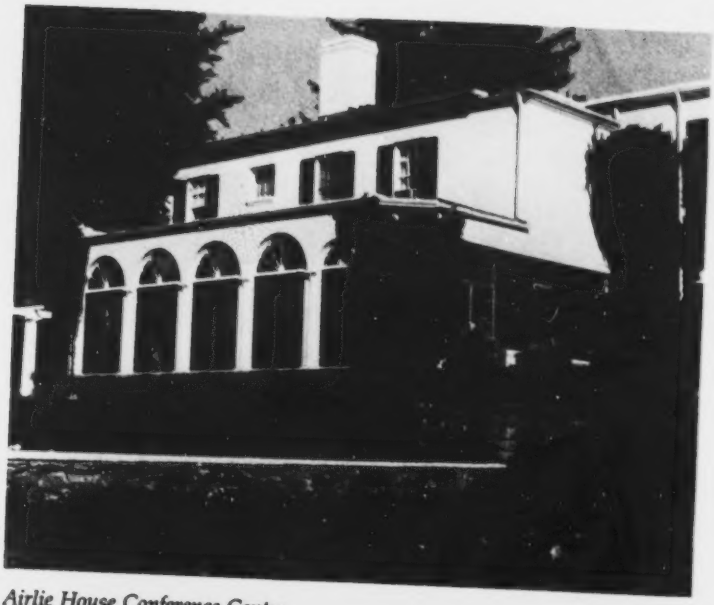

*Airlie House Conference Center*

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All reports were written following the conference and were not reviewed by group members. Thus it should not be assumed that participants subscribe to all recommendations and conclusions of their discussion group. The views expressed are not necessarily those of the Stanley Foundation.

*Richard H. Stanley*
*President, The Stanley Foundation*

# OPENING REMARKS

**Richard H. Stanley**
**President, The Stanley Foundation**

Welcome to the Stanley Foundation's 27th Strategy for Peace Conference. We are pleased to have assembled such a distinguished group of participants for our discussion topics. Some of you are veterans of past Stanley Foundation conferences, but many of you are new.

Each year we select four topics for discussion at this conference. We seek issues which are timely and important and which might benefit from forward-looking consideration aimed at developing policies for their effective management. We encourage our

*Opening Conference Session*

discussion chairs to press participants in the direction of surfacing creative policy suggestions. The reports of our discussions are circulated widely to encourage careful consideration of the ideas presented.

We do not look for a unifying theme in selecting the topics. However, as I look over this year's subjects, I think there is one characteristic common to all of them. In each case it seems to me that the United States has been executing policies which have been moderately successful but which are based on broad assumptions that may no longer be valid. In some cases the assumptions are dated. In others they are based on a view of circumstances which is too limited or overly simplistic.

For example, in the Pacific region the United States has largely assumed that our alliance relationships and military power make the Pacific a secure zone where we have been preeminent and expect to remain so. In Mexico, we have assumed our domination,

especially economic, and tended to take the stability of their political structure and their close ties with the United States for granted. The nonproliferation regime has generally been assumed to be in place, working adequately, and not in need of a great deal of attention, especially since it is one area of arms control where we seem to have common ground with the Soviets. Finally, the weakness of the Soviet economy is a situation we have generally regarded as something we could take advantage of if we chose to do so. As if to prove the point, recent speculation regarding the Soviets assumes Mr. Gorbachev is seeking arms control with the United States primarily to free military funds for domestic economic needs.

Certainly, you who are experts in these subjects have a wide and deep appreciation for the intricacies and importance of these issues. But my sense is that the general public and the political leadership of this nation have become so attached to the broad assumptions that they often pay little attention to the details of what is going on in these areas. Consequently, they fail to consider the validity of long-held assumptions.

## Search for Simplicity

Executing a foreign policy for this nation is a massive undertaking. We have interests all over the world. We are a pluralistic democracy with many voices striving to be heard and have influence. Our people, and too often our political leadership, are not sufficiently well informed on foreign policy matters. We have a low tolerance for ambiguity, and we tend to think too often in terms of immediate answers rather than long-term progress. And these factors lead us to cast our public foreign policy discussions into contexts which are overly simplistic.

For example, we tend to force fit most foreign policy issues into a narrow, bipolar world view centered on the United States and Soviet Union. In dealing with other nations we tend to see incidents or actions in win-lose, zero-sum terms. Positive-sum opportunities are too often missed because of this. Similarly, we tend to oversimplify the world by categorizing nations as "friends" or "enemies." Appreciation or even respect for the individual perspectives and circumstances of other nations, especially Third World nations, is often crowded aside by this categorization. Unfortunately, these tendencies become greatly accentuated when an issue draws national media attention and evokes response from high-level political leaders.

## Misapplying Power

The consequence of the overly simplistic response is that we too often use our substantial power clumsily, resulting in short-term

actions which are contrary to our long-term interests. All too often I am reminded of Barbara Tuchman's book, *The March of Folly*, in which she inquires into the historical phenomenon of "the pursuit by governments of policies contrary to their own interests" despite recognizing that such action is counterproductive and that feasible alternatives exist. Our use of military power in Vietnam wrote a regrettable chapter in our history. The outcome of the current proxy war in Nicaragua is yet to be seen, but it is hard to foresee a desirable outcome.

Similarly, our use of economic power has often had unanticipated consequences. We embargoed grain sales to the Soviet Union and sent them to purchase elsewhere, permanently damaging our export strategy. Through the International Monetary Fund we have pressured Mexico into adopting an economic austerity program. I will leave it to the experts here to assess the long-term consequences of this strategy, but I sense that we did not fully take into account the immigration or trade consequences of this action.

Our political performance in dealing with other nations, which should be one of our strengths, is too often inadequate. Again, especially in times of crisis, we gravitate toward politically popular expressions of moral outrage and an almost spiritual belief in our preconceived ideas about the situation. We do far too little creative policy planning. This is a recurring theme from past conference participants. But even when professional assessments of a situation have been made, they are too often overlooked. Long-term interests are forgotten. It is what Ms. Tuchman would refer to as woodenheadedness, or the failure in a given situation to be deflected by the facts. She notes that this notion is "epitomized in a historian's statement about Philip II of Spain, the surpassing wooden-head of all sovereigns: 'No experience of the failure of his policy could shake his belief in its essential excellence.'"

## Soviet Miscalculations

In a sense, we are fortunate that the Soviet Union is no more adept at functioning in this complex world that are we. They have shown themselves to be every bit as clumsy and certainly more brutish. Ineptitude and rigidity have cost them influence in important nations like China and Egypt and have bogged them down in Afghanistan. They repeatedly miscalculate international response to actions such as the deployment of SS-20 missiles in Europe several years ago and the recent arrest of Nicholas Daniloff. At times Mikhail Gorbachev shows signs of a

new sophistication, but there has not yet been time to fully assess his impact on Soviet foreign policy.

Soviet deficiencies, however, are no cause for us to be sanguine about our own. Besides our misadventure in Vietnam, we have bungled badly in countries ranging from Cuba and Nicaragua to Angola. We used military force in Grenada and Libya, drawing popular domestic support but a far less enthusiastic international response. Just as the Soviets misread us, we misread them as well. Witness early US miscalculation and reaction to the Chernobyl disaster and the apparent failure to anticipate Soviet response to the arrest of Gennady Zakharov.

## The Discussion Groups

There are problems in each of the areas covered by our discussion groups that arise from dated or inadequate assumptions. During the next two days you will be exploring the nature of those problems and analyzing them.

Our concept of security in the Pacific is based on antiquated and neglected alliance relationships which are increasingly being called into question. There are security problems which cut across the whole region and specific areas of concern unique to certain countries. Our relations throughout the region are certainly changing.

Economic instability in Mexico has become so acute that the future of the political regime has been called into question. How big an influence can and should we have on Mexico's economic and political future? What are the consequences for the United States in the wide range of options we might employ?

On the surface it might appear that because it has been many years since a new member has joined the nuclear weapons club, the nonproliferation regime is solid. But we are all aware of the activities of several problem nations that have not forsworn their right to develop weapons. The problem grows chronically worse in India and Pakistan, and recently there have been published reports of Israeli nuclear weapons stockpiles. Likewise, the progress on arms control casts a worrisome shadow. Lack of results from the Rekjavik summit underscores the lack of progress in reversing vertical proliferation which is also supposed to be a central part of the nonproliferation regime.

Finally, it still seems clear that the Soviet economy is weak. Will Gorbachev's new policies strengthen it? Is it in our interest to see it strengthened or weakened? How much can our policies affect the

outcome? Are there positive-sum alternatives, especially through arms control, which will benefit both the Soviets and ourselves?

## US Values

The presence of difficult foreign policy questions and issues is normal. You who are experts in the topics of this conference know this well. Perhaps more than most, you are disturbed when professional analysis is ignored, simplistic approaches form the basis of policy actions, and long-term considerations are sacrificed by politicized short-term reaction.

The immediate challenge for you is to determine what policies should be employed to meet the critical problems we face and to consider how to most effectively implement these policies. In doing so, however, you cannot ignore the need for these policies to gain national acceptance.

The American people have a deeply imbedded desire for a secure peace with freedom and justice. But patience and an appreciation for complexity is not a part of our national makeup. Thus, the long-term challenge for all of us is to develop the US political culture toward greater tolerance for ambiguity and greater appreciation for long-term consequences. In the foreign policy arena we need to stop assuming that the Soviets are behind every adverse development. We need to stop seeing relations with other nations in adversarial, zero-sum terms. We need to learn to appreciate the nuances of different situations, and we need to be able to maintain flexibility in executing our policies. We need good policy options and, concurrently, a political dialogue that makes a virtue, not a vice, out of the complexity of living in modern times.

*Richard Kessler, Chair* *Robert Manning, Rapporteur*

*Pacific Security Participants*

# THE US AND THE FUTURE OF PACIFIC SECURITY

**Chair:** Richard J. Kessler

**Rapporteur:** Robert A. Manning

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Paul H. Kreisberg
Robert Martin
Stephen Morris
Don Oberdorfer
Alan D. Romberg
Peter Samuel

**Discussion Report:**

## Introduction

In the period since the Vietnam debacle, Asia has become a region of increasing US importance and involvement. The Pacific Basin has become the most dynamic economic area in the world with the United States and Japan alone accounting for one-third of the world's total GNP and 53 percent of total banking assets. In the 1980s trans-Pacific trade has exceeded trade across the Atlantic. However, East Asia's economic success has generated a new crop of problems and challenges as well as heightened its strategic importance. At the same time that Asia has become the focus of burgeoning superpower rivalry, the United States' role is steadily being altered. This is in part a result of the political and economic maturity of nations in the region and the great flux and ferment among the Pacific countries.

Formal post-World War II multilateral alliances in Asia, such as the Southeast Asia Treaty Organization (SEATO) and the Central Treaty Organization (CENTO) have long been dissolved. The security pact between Australia, New Zealand, and the United States (ANZUS) and even US bilateral security ties to the Philippines have question marks hanging over them. At present US power projection capabilities (in the Indian and Pacific Oceans) and strategy of containment are based on a loosely knit US global strategic network comprised of a collection of bilateral treaties—for example, Japan, South Korea, Philippines—and informal understandings, such as



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with China, Taiwan, the Association of South East Asian Nations (ASEAN), and in Southwest Asia.

The discussion examined problems, trends, and threats affecting the security of the region, what posture the United States has or is perceived to have, and how the United States might respond to unfolding realities in Asia. The remainder of the discussion explored five areas: East Asia's leadership/transition crisis reflecting generational change; new Soviet initiatives in Asia; nuclear issues and the globalization of Asian policy; the impact of trade and economic issues on security in the Pacific; and regional strife.

At present the United States has in place the structures essential to the well-being of itself and its partners. The pattern of trade and investment in the Pacific Basin largely complements the security alignments of the region. The United States is still the predominant force in the Pacific. But the very success of many Asian states—Japan, China, the newly industrialized countries (NICs) (South Korea, Taiwan, Hong Kong, Singapore), and the ASEAN bloc—has fostered a new pluralism, a trend toward increasing multipolarity which US policy must take into account. Participants felt that the political and strategic environment rules out future formal multilateral security pacts.

In some cases, formal alliances beyond those now in existence may be inappropriate and counterproductive. Panelists felt that a more sophisticated approach involving multiple policy instruments may best attain the US objectives of maintaining maritime access, containing Soviet influence, promoting interdependent economic growth, and encouraging democracy. The United States' associative relationship with ASEAN was cited as an example of a forward-looking framework for regional partnership. US-ASEAN ties are not primarily military, though there are bilateral security ties with the individual countries. ASEAN allows the United States a low profile political role and provides a framework for addressing regional issues.

## Leadership/Transition Crisis

Generational change in the Pacific was viewed as raising a number of challenges for the United States. In the Philippines, for example, some 50 percent of the population is under twenty and knows the United States as a supporter of ousted dictator Ferdinand Marcos and not as a liberator from Japanese occupation as did their parents. The new prosperity, rapid urbanization, and other hallmarks of modernization particularly in East Asian NICs, such as South Korea and Taiwan, have given rise to pressures for democratization challenging authoritarian rule. In a host of Asian countries

there is a leadership problem reflecting generational shifts as an older generation of authoritarian rulers are in various stages of transition to an uncertain future after decades of unchallenged power. Both North and South Korea and potentially Indonesia were viewed as facing possibly explosive conflicts, which in the case of the two Koreas would have dangerous implications for the great powers in the region.

The panelists felt that one of the prime challenges for the United States in the Pacific is related to the fact that the US perception of the Soviet threat differs from that held by Asian nations. While the United States has a globalist view of the Soviet threat in the Pacific, the nations of the region tend to perceive the Soviets in relation to direct, country-specific threats to themselves. The result is a trend toward a moral equivalence of both superpowers. This neutralist trend is manifested in the antinuclear movement gaining currency in the South Pacific. ASEAN has called for a Zone of Peace Freedom and Neutrality (ZOPFAN) as have the nations grouped in the South Pacific Forum. The panelists also cited opposition to French nuclear testing in the region and New Zealand's recent posture as indicative of antinuclear sentiment reflecting a moral equivalence between the superpowers.

Some panelists pointed to other factors contributing to the moral equivalency trend. These include the perception of rampant protectionism in the United States threatening Asian states and concern about the emergence of China as a major regional power. Such views of country-specific threats mitigate regional perceptions of the growing Soviet presence as something of more concern to the United States and China than as a direct threat to the region as a whole. Some conferees attributed this phenomenon to the emergence of the post-World War II generation, others to a political trend exploited by leftists and the Soviet Union, and some felt it is in part due to a fragmented US approach to the region. The group felt that lack of direct exposure to the United States was also a factor and recommended a major educational effort to underscore the differences in the US and Soviet roles.

## Soviet Initiatives in Asia

The group strongly agreed that Soviet leader Mikhail Gorbachev's July 28, Vladivostok speech marked a bold new approach in Moscow's policy towards Asia as a whole, extending an olive branch to the entire Pacific Basin. The new policy appears to be an effort to strengthen the Soviets' bargaining position in demilitarizing the region, to normalize relations with China, to improve ties to Japan, to drive a wedge between the United States and its partners in the region, and to become an economic participant in

the Pacific. The panel felt that new Soviet initiatives in Asia may well be irreversible and may require the United States to adopt less of a zero-sum view of the Soviets in the Pacific Basin. The panel agreed that the Soviet Union, North Korea, and Vietnam continue to pose serious security challenges, but the Soviets' new activism means Moscow can be expected to play a more sophisticated role than it has in the past. If the new Soviet policy develops into major initiatives such as a full-fledged Sino-Soviet detente, a Soviet withdrawal from and resolution of the Afghan conflict, or territorial concessions towards Japan, such moves might pose serious challenges to the US posture in Asia. However, no such developments appear close to realization in the foreseeable future. Participants agreed that thus far Asian countries have been skeptical of the new Soviet initiatives, though receptive to economic prospects. In regard to China, the Soviets have made the most serious overtures, offering a territorial concession on the Ussuri River border and the removal of troops from Mongolia. The panel felt that the Soviet Union seeks to reduce its main regional security threat—their forty-three hundred-mile border with China. The group agreed that Sino-Soviet reconciliation is a protracted, incremental process; that it is unclear what price Moscow is prepared to pay to achieve it; and that a lessening of Sino-Soviet tensions does not harm US interests. But a Sino-Soviet reconciliation resulting in Soviet troops redeployed to Europe would be of serious concern to the United States.

In regard to Japan, the group agreed, the Soviets have not made any concrete gestures but rather are probing for a means to improve Soviet-Japanese relations. The group felt that Moscow seeks Japanese capital, technology, and management expertise as well as a new image. The group expressed concern that a Soviet overture which included the return of all or some of the northern islands claimed by Tokyo could dramatically alter Soviet-Japanese relations and have a negative impact on US-Japanese ties.

The perceptions by the Pacific nations of a moral equivalence between the United States and the Soviet Union has been reinforced by Gorbachev's "charm offensive" in the Pacific. This includes proposals to demilitarize the area, even hinting at Soviet withdrawal from Vietnam's Cam Ranh Bay if the United States abandoned its Philippine bases. This also belies the asymmetry in the US and Soviet postures in the region. The Soviets have few economic or cultural ties to the region and little force projection capability outside Soviet territory. In contrast, the United States has long been the dominant military power in the Pacific as well as being the major trading partner of many of the countries in the Pacific Basin.

Participants were divided on whether the Soviets seek to participate in the economic life of the Pacific for economic or political reasons. The Soviets do appear to be offering a market to the ASEAN states and others, as well as building economic ties to China, and may seek to import consumer goods in exchange for Soviet capital goods. US protectionism could work to accelerate Soviet economic involvement in the Pacific. The panel felt Soviet economic moves in regard to the Pacific were an aspect of the economic reforms and global competitiveness sought by Gorbachev.

## Nuclear Issues and the Globalization of Asian Policy

Soviet initiatives in Asia also reflect a globalization of Asian issues—economic as well as strategic—that must be increasingly factored into US policy towards the region. The antinuclear sentiment in the Pacific which Gorbachev's initiatives seek to exploit are part of the same political fabric as the neutralist trends in Europe. In regard to arms control, participants felt that Gorbachev is seeking to undercut the United States' strategic posture in the Pacific and also gain both nuclear and conventional arms reduction. Arms control has increasingly acquired an Asian dimension with the deployment of some one hundred sixty SS-20s east of the Urals. In response to the Soviet buildup, what can be characterized as an Asian position on arms control has emerged. What began with Japan's vocal opposition to a separate Euromissile agreement has gained the backing of China and others and has been incorporated into the US position of linking Intermediate Nuclear Force (INF) cuts in Europe to cuts in Asia. The panel agreed that a zero-option nuclear accord (eliminating all European-based nuclear missiles) would leave Japan feeling vulnerable and that Soviet strategic defense systems could neutralize the Chinese nuclear deterrent. The group did cite a difference in the effects of the INF position on Asia from Europe, where the Western alliance faces a conventional disadvantage.

The panel agreed that nuclear problems in Asia require a more sophisticated US approach and that any Soviet success is dependent on US mistakes. The bilateral security pacts that work in East Asia do not work in Southeast Asia. Some of the panel pointed to the conflict with New Zealand, suggesting that while the United States feared the global demonstration effect, forcing the issue may have created a perception in the region of a large power bullying a small one. Similarly, if not sending nuclear ships to New Zealand or to Subic Bay does not effect US strategic requirements, the political benefits of not doing so might outweigh any disadvantages.

## Economic/Foreign Policy and US Security

The group emphasized that the lack of coordination between foreign and trade policies has a serious, negative impact on US security

interests in the Pacific. Soviet fishing agreements with South Pacific island states, which the group felt were politically motivated, are largely the result of the influence of the US tuna-fishing lobby on Congress. Similarly, unfair trade practices towards Australia and the perception of protectionism among ASEAN states contribute to views of moral equivalence providing Soviet opportunities. At the same time, the panel agreed that future US trade opportunities lie more in the Pacific Basin than in Europe or Latin America and that enhancing trade and investments in the region contributes to the overall US posture in Asia. The group expressed the fear that the influence of special interest lobbies in specific sectors—for example, sugar, rice, textiles, wheat—in forthcoming election years may heighten protectionist sentiment in the Congress.

In regard to Japan, which the group agreed is the single most important bilateral relationship the United States has in Asia, perceived linkage between trade and Japan's defense role may lead to strains in the relationship. The group feared a misconception—particularly in Congress—about Japan's defense role and the relation of trade policy to security interests. Japan has thus far met its mid-term defense requirements to fulfill agreed-upon roles and missions of defending air and sea lanes out to one thousand miles. Significantly, there is a growing domestic consensus in Japan in favor of such efforts which Prime Minister Yasuhiro Nakasone has helped foster.

The panel felt that misconceptions of the causes of the US trade deficit with Japan are a source of tension in US-Japan relations. While the panel felt US pressure for more market access was appropriate, synchronizing the respective US and Japanese mix of fiscal and monetary policies—particularly reducing the US budget deficit—and greater US expertise and language skills in regard to Japan are considered vital. Converting Japanese capital surpluses into both foreign aid to ameliorate the Third World debt problem and increased public spending and consumption in Japan were viewed as key to future stability. The panel also felt the US overemphasis on trade or security issues could undermine the overall relationship.

## Regional Instabilities

The panel also discussed specific regional instabilities—Kampuchea/Vietnam, Philippines, Korean Peninsula, and Taiwan/China—and their impact on US policy.

### Kampuchea/Vietnam

The group was divided in regard to several issues concerning the

*Pacific Security Discussion*

Kampuchea/Vietnam conflict. The group agreed that Vietnam's objective was to consolidate hegemony in Indochina and that Soviet support for Hanoi appears to *quid pro quo* for bases at Cam Ranh Bay, Danang, and Kompongson in Kampuchea. The group disagreed on what the most productive US course might be. There was also division on whether US diplomatic initiatives could loosen Soviet-Vietnamese ties. Some questioned the efficacy of the current US position of backing ASEAN in supporting the Khmer noncommunist existence. Some in the group felt increased US support for a Khmer "Third Force" could improve those factions' position. The communist Khmer Rouge is engaged in the overwhelming majority of the fighting against the Vietnamese occupation. Some in the group argued that the US choice is between a Vietnamese communist-dominated Kampuchea or a Khmer communist-dominated Kampuchea.

Some in the group felt a US diplomatic presence in Hanoi and Phnom Penh could aid in resolving the conflict. Others felt any such move would be viewed as capitulation. There was agreement that any steps towards normalization require resolving the POW/MIA issue, but some felt no steps should be taken until Vietnam withdraws its troops from Kampuchea. Some felt that a new more pragmatic, technocratic Vietnamese leadership is emerging which is more amendable to compromising on Kampuchea as the price for obtaining Western trade, investment, and aid. Some participants thought the current US posture encouraged an enhanced Chinese position in Southeast Asia that could prove counterproductive. The group agreed that diminishing Soviet-Vietnamese ties are a long-term US objective but was divided on how to accomplish such a goal.

**Philippines**

The group expressed grave concern over the situation in the Philippines in regard to the long-term stability of the Aquino government and the future of the US military bases there. Some in the group felt that in eight months with no transition period, the economic policies, IMF accord, and new constitution are serious accomplishments. However, the group agreed that the communist insurgency continues to grow and that ultimately the issue is not whether to wage a military campaign against the insurgency but rather Aquino's ability to implement radical reforms to remove the sources of popular support for the Communist Party of the Philippines and its military wing, the New Peoples' Army (CPP/NPA). The group agreed that if Aquino fails, it will set in motion a psycho-

logical process polarizing the country, strengthening the left, and devastating US interests.

The key to long-term stability is the implementation of policies bringing services, land reform, and opportunities to the rural areas. Aquino's credibility could aid in some mechanism for popular mobilization to accomplish these goals, possibly through the Catholic Church and/or mobilizing youth. The group noted that the CPP/NPA, traditionally without any foreign support, is beginning to look outward; this could provide opportunities for Soviet influence in the long term. The group felt US policy may be too complacent and that the United States should begin subtly to encourage reform policies. The upsurge in Filipino nationalism is not necessarily anti-American. But the group felt that the United States should begin exploring ways of regionalizing the bases within the context of ASEAN to accommodate nationalist sentiment. The bases serve US security interests and Philippine economic interests; a low-profile US effort to explain its position and the effect of the alternatives on Filipinos may be advisable.

**Korean Peninsula**

The group agreed that the United States appears to be underestimating the gravity of the situation in South Korea. The conflict between the Chun regime and a growing and increasingly radical opposition has stalemated the move toward a democratic transition. However, the panel was divided on how the United States should encourage the strengthening of democratic institutions, though there was agreement that the United States should strongly identify with such efforts. There was concern that North Korea might seek to exploit civil strife in the South. The wide perception of the United States as identified with the Chun regime complicates the prospects of Washington's influencing both sides towards compromise, but anti-Americanism remains confined largely to the student-activist minority. The democratic trend was viewed as a product of rapid urbanization and the emergence of a new middle class seeking greater liberties and political participation. Some in the group felt the United States might ease North-South tensions by fostering dialogue and opening economic ties with Pyongyang.

**China/Taiwan**

The panel agreed that China and Taiwan pose serious questions for US policy but was divided on the issue of US-China military ties. The reality of a US-China-Japan triangular alignment, although an informal alliance, is a historically unique situation. US-Japan security ties were recognized as the anchor of the US strategic position in East Asia, with coordination increasing substantially. The group felt that arms sales to Taiwan, in light of the August 1982 joint commu-

nique with Peking, looms as a disruptive issue in US-China relations. There was agreement that good relations with China and support for its economic modernization is in the United States' interest. China's unprecedented integration into the world financial and political systems is a factor for stability, moving Peking increasingly toward becoming a status quo power. Some in the group felt, however, that the long-term implications of military and high-technology cooperation require more careful consideration. China is primarily a passive strategic asset for the United States whose long-term direction is uncertain. There was disagreement on what the limits of hi-tech and military ties should be. Some in the group feared the emergence over the next fifty years of a Sino-Japanese power bloc that might conflict with US objectives.

## Conclusions

The United States is facing a period of major flux and ferment in the Pacific. The regional perception of the United States, moral equivalence blurring the distinction between the United States and the Soviet Union, is a growing problem. There is a need to refine US interests, incorporating economic issues into the definition of security, and to begin better coordinating economic policy and foreign policy. Additionally, in order to achieve long-term goals, an effort must be made to reach out to a new generation to explain US objectives. With regard to more specific issues, the following received special attention:

— In light of the major shift in Soviet policy toward the Pacific, the United States should take the opportunity to refine its policy to accommodate a new pluralism, a multipolarity, in the region. Deterring Soviet goals requires better management of the loose coalition of alliances and quasi-alliances.

— In regard to the Philippines, US policy should encourage dynamic social policies to avoid a paralysis of the Aquino government and foster an environment able to undercut the insurgency. Additionally, consideration should be given to multilateralization of the US bases in the ASEAN context.

— Given the existence of a major flash point in the Korean Peninsula and the special relations between Washington and Seoul, a more activist US stance to promote democratic institutions would help stabilize Northeast Asia.

— In Indochina, current US policy does not appear to be facilitating a resolution of the conflict, but the complexities of the situation render it difficult to devise a formula to resolve and reduce Soviet influence in the region.

— Regarding Japan, establishing a symmetry of economic and security ties in the US perception of Japan and recognizing the acceleration of US-Japan strategic ties while independently

addressing trade problems are critical to a stable future partnership.

— US-China policy needs to be balanced against policy toward other actors in the region and long-term prospects assessing the limits of the confluence of interests between the United States and China.

Taken together, these specific conclusions reiterate the need to view the Pacific in more comprehensive terms, avoiding a fragmented approach in which policies in one area fail to take into account the dynamics of another.

*Stephen Wegren, Rapporteur* *Ed Hewett, Chair*

*Soviet Economy Discussion Group*

# THE SOVIET ECONOMY AND US POLICY

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**Rapporteur:** Stephen K. Wegren

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Herbert J. Ellison
Kenneth Gray
Carol R. Hansen
Peter Hauslohner
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**Discussion Report:**

## Introduction

Mikhail Gorbachev, in his second year as general secretary of the Communist party of the Soviet Union, has set out to radically reform the economy. He seeks to modernize the entire Soviet economy, dramatically improving economic performance and creating an economic system whose performance would compare favorably with the remainder of the industrialized world. This is, for Gorbachev and the remainder of the Soviet leadership, a matter of pride. It is also a necessity arising from an increasingly sophisticated technical challenge from the United States—symbolized by President Ronald Reagan's proposal for a US Strategic Defense Initiative (SDI) and from the need to address the increasingly diverse needs of the Soviet population.

The likely success of Gorbachev's efforts has potentially important implications for the United States. Reform in the Soviet economy could generate pressures for political pluralism, a long-term goal for US policy. From that point of view, the United States might wish to do what it could to speed the process along. On the other hand, Gorbachev's preoccupation with the enormous challenge of radical reform is a potentially important incentive for reaching an accommodation with Washington on a broad range of issues to obtain a "breathing space" permitting a focus on domestic issues. The United States might be able to use that incentive to conclude agreements with the Soviet Union on a broad range of issues, most notably arms control.

Group discussion began with an analysis of Gorbachev's strategy for dealing with his economic problems. The likely economic and political consequences of Gorbachev's policies were addressed. The sessions concluded with an analysis of US interests in the outcome of this reform process and the implications for US policy.

## Economic Problems and the Need for Reform

The need for economic reform lies in the fact that over the last fifteen years economic growth has slowed considerably in the Soviet Union. The average growth rate of the gross national product (GNP) has fallen from an annual rate of around 5 percent in the 1960s to 3 percent in the first half of the 1970s, falling even farther to only a little over 2 percent in the latter 1970s. During the first half of the 1980s, growth has exceeded 2 percent in only two of the first five years, which has led some analysts to speak of the virtual stagnation of the Soviet economy.

Moreover, the Soviet economy is plagued with generally low quality technology and goods. There are persistent imbalances in the system. Labor productivity is low. There has been and continues to be a tremendous waste of resource and labor inputs.

Gorbachev is also faced with a number of objective conditions over which he has little control. The labor force is barely growing and labor inputs cannot be mobilized to increase growth. Diminishing returns which accompany a maturing economy contribute to declining capital productivities, a process exacerbated by the shift eastward in search of additional raw materials and fuels.

Gorbachev wishes to reverse the decline in growth rates, returning in the 1990s to the 5 percent rates of the 1960s, while at the same time reducing imbalances in the economy and dramatically improving the quality of goods and services. The group agreed that Gorbachev regards economic reform as a necessary prerequisite, although not the only prerequisite, for accomplishing such dramatic improvements in performance. The discussion of his approach to reforms began with an effort to sketch out his vision of the reformed system. The group then considered how far Gorbachev has progressed to date in realizing that vision.

## Gorbachev's Vision: What He Hopes to Accomplish

Gorbachev reflects a general consensus in the Soviet Union when he characterizes the Brezhnev years as a period during which the center began to lose control over the system. His vision for the reformed system clearly includes revitalized central control over the general operation of the economy, enabling the party to better shape the development of the economy. Some in the group felt that

goal was the sum total of his vision, that he was seeking to modernize the central planning system without truly reforming it.

Others discerned a much more radical vision in Gorbachev's public statements, suggesting a system in which the center controls only the key macro variables while relatively independent and unregulated economic units compete with each other to satisfy customers. Thus while such advocates see the centralizing portion of his vision, they see much more: a socialist economy where individual initiative plays a far greater role than it does today. Which of these visions more accurately represents Gorbachev's intentions for the economy may never be resolved. As a practical matter, the more important issue is what Gorbachev is actually doing, or is able to do.

## Gorbachev's Economic Strategy

Four primary factors were identified as important sources of evidence to determine the general secretary's strategy: investment spending, legislation and decrees, personnel appointments, and plan data.

In addition to distinguishing between centralizing and decentralizing trends in the economic reform program, one must also differentiate between long-term and short-term strategies. There was agreement that, in the short term, Gorbachev has clearly opted for a quick boost to the economy through what he calls "the human factor"—administrative reorganization, personnel changes, a crackdown on alcoholism, strengthening worker discipline, and giving enterprise directors the right to reward hard work. One participant noted that Gorbachev has not moved against the social security system which underlies Soviet society. Instead, Gorbachev seems to be saying that workers who do not work hard will be able to get by, but those who produce good products and work hard will be financially rewarded.

The group next focused on the long-term issues of legislation and reorganization in the economy. Major pieces of legislation to date include the dilution of monopoly power by foreign trade organizations over imports and exports of manufactured goods; the granting of greater autonomy to enterprises while directing ministries to stay out of their daily affairs; the decision to place all of light industry on a self-financing basis starting January 1, 1987; the adoption of new penalties for speculators operating in the so-called "second economy"; the expansion of the cooperative network; and the sanctioning of individual labor activity in the service sector. Important reorganizations which were noted include the creation of a new *biuro* to supervise the eleven civilian machine-building ministries. Bureaus supervising the fuel and construction industries have also been es-

tablished. A new Commission for Foreign Economic Relations will supervise all foreign trading and financial activities, and creation of a *biuro* for transportation is likely. In addition, a "superministry" has been established out of the ministries which oversaw agro-industry.

Thus as one participant indicated, economic reform to date has witnessed a move toward greater centralization and coordination. At the same time, this centralization has been ambiguous. For example, it was pointed out that similar to the Kosygin reforms of 1965, promises of greater autonomy have been given to enterprises attendant with fewer mandatory indicators, more freedom of decision making, more legal rights, and less interference by ministries. Herein lies one of the central problems with the reforms, as one participant explained. Similar to the 1965 reforms, mixed signals are being sent to the ministries. On the one hand, they are told to interfere less with the enterprises for which they are responsible. On the other hand, ministries continue to be responsible for the output of those enterprises, which in turn creates pressures to interfere.

Although the decentralization part of the reforms remains embryonic, a number of questions arose over how far decentralization might extend. For example, would an enterprise be allowed to go bankrupt? It was noted that at present there exists no legislation to cover that contingency (only China and Hungary have such legislation), and it is likely that the most which could be politically justified would be a reorganizational procedure whereby management would be replaced but the workers retained, similar to Chapter 11 proceedings in the United States.

Central to the issue of self-financing and accountability is overemployment and possible unemployment in the case of financial failure of the firm. Again, there is no existing legislation regarding layoffs, but two experiments exist which serve as precedents. One participant raised the example of the "Leningrad experiment" in which an enterprise had a wage fund to do with as it saw fit, and "unneeded" workers were let go, in this case around 10 percent of the engineers. Another example was the Byelorussian railroad experiment in which a wage fund was also used to layoff surplus labor, in that case about 10 to 15 percent of the blue-collar workers.

The group was divided over the question of whether Gorbachev would get the economy he wants if the reforms were to allow bankruptcy; were to increase efficiency through layoffs; and were to go so far as to grant greater enterprise autonomy, decentralize price determination, and enforce less ministerial interference. Some ar-

gued that even with such changes a market infrastructure in the Soviet economy would still be lacking. The opposing view maintained that such reforms would create further pressures to reform; that there is a logic to the market system; and that if the reforms went that far, pressures would be generated to carry them even farther.

## Gorbachev's Political Strategy

The group agreed that in large part the success of the reforms is a political question. Does the political will exist to make the reforms stick? Are Gorbachev and the Soviet leadership inclined to make the reforms politically palatable? Can Gorbachev defeat domestic sources of opposition?

The group was unanimous that at present there is no opposition to Gorbachev as a leader. He was selected for his relative youth, vitality, and intelligence but also for his intention to reform the system. The group diverged on questions regarding the pace of change, the type of reforms (whether systemic, fundamental, or minimalist), and the results Gorbachev has to produce. Gorbachev's dilemma is that he has to show successes, or at least progress, in the short run; yet the problems he faces are soluble only in the long term. Indeed, it was pointed out, he is a remarkable man and a unique politician for staking his short-term political future on long-term remedies. One participant raised the possibility that given the instability of the last few years, the system perhaps "owed" Gorbachev a grace period in which his program would be given a chance to succeed. Another participant raised the question of whether Gorbachev would even still be general secretary by 1990. It was felt that if he moves too fast and steps on the toes of too many vested interests along the way, while at the same time not showing any significant progress, his position may be jeopardized. Most in the group felt that within the leadership a commitment had been made to Gorbachev. However, his support is not unconditional, and he must show concrete results.

Within the Soviet leadership, one of the most amazing (and unprecedented) developments under Gorbachev has been the extremely rapid turnover of personnel. Within his first year Gorbachev removed three Politburo members and appointed five others. In addition, he replaced the chairman of the council of ministers, over twenty-five economic ministers and state committee chairmen, and eight Central Committee department heads. He also removed approximately one-quarter of oblast (regional) first secretaries. At the 27th Party Congress in February, he undoubtedly benefitted from the 40 percent turnover in the central committee. At the same time, the view was voiced that a great deal of middle level opposition—presumably among oblast party secretaries—

must exist; even with the tremendous central committee turnover, there remains a large number of holdovers from previous congresses who may represent implicit resistance.

One participant took issue with this last view and argued that one must distinguish between groups which potentially stand to benefit from Gorbachev's reforms and those which had benefitted disproportionately under Brezhnev during the last twenty years. Four main "mobilizable" groups were posited which could be sources of support for Gorbachev's economic reform. Within each large group there are "latent" interests which stand to benefit from reform. These groups were characterized as follows:

(1) The highly skilled, educated, professional stratum in society at large, who (in terms of wage increases) did not benefit under Brezhnev as much as workers but who would gain from Gorbachev's reforms;
(2) Those in the bureaucracy who would gain from increased status;
(3) Local party officials in regions which would gain from the economic reforms;
(4) The military which needs reform to compete with the United States but is uncertain about the type of change needed and wary over who will pay the costs of reform.

Another source of disagreement among the group was over the placement of Gorbachev along the political spectrum within the Politburo. One view held that Gorbachev seems more impatient and has pressed more urgently for reform than the rest of the Soviet leadership. This view pointed to the implicit resistance of the number two man in the Politburo, Yegor Ligachev, and even to the moderation espoused by one of Gorbachev's own appointments, Nikolai Ryzhkov, chairman of the council of ministers. This participant maintained that Gorbachev was not constrained by his colleagues in the Politburo and was, in fact, attempting "to drag them along" with him in his push for reform. An opposing view argued that Gorbachev was in fact constrained by the Politburo: that he has little room to maneuver and is doing only what his colleagues want him to do.

Considerable discussion focused on actual and potential opposition to Gorbachev. There is a consensus for change within the Soviet leadership, but what kind of change and how far-reaching is open to debate. All participants agreed that while Gorbachev is the undisputed leader, the substance of his policies is contested among various leaders within the Politburo. One participant argued that Gorbachev rules by virtue of the lack of a majority opposition, not

due to his own majority coalition. There is evidence that fragmentation exists within the Politburo.

Within this context, Gorbachev has utilized a number of unconventional techniques to combat opponents. First, the possibility was raised that Gorbachev's *glasnost* (openness) campaign is a technique to attack pockets of resistance in the party and bureaucracy. Second, it was pointed out, Gorbachev has squeezed the middle level bureaucracy by going over the heads of resisters and directly campaigning for his program in the provinces. He has also used some conventional techniques: for example, the liberal use of personnel changes, which in terms of numbers alone suggest success. Finally, similar to Khrushchev, Gorbachev is a leader who is acting independently of the Politburo, unlike Brezhnev who was a "team leader."

## Economic Reform and the West

Two principal aspects to the East-West relationship were considered to be of importance to Gorbachev's reform strategy. First, the importance of SDI was discussed. It was generally agreed that the Soviets fear the SDI program and the technological spinoffs—both in the conventional and nuclear weapons realm—which might accrue from research, development, and testing of these more "exotic weapons." The Soviets are more sanguine than SDI opponents in the United States regarding the efficacy and deployability of the program. Furthermore, the research effort and money devoted to this program is sure to widen the technological gap between the United States and the Soviet Union in both military and nonmilitary applications.

It was also noted that there is a certain paradox in Gorbachev's treatment of the SDI threat. On the one hand, he is primarily interested in regulating and managing technological competition with the United States to ensure that the Soviets are not left behind. According to this view, Gorbachev wants to manage the pressure put on the Soviet Union, although he is not able to vitiate it altogether. It was observed that the present nuclear regime, which is dominated by large ICBM forces, is the best the Soviets can hope for and is one at which they have proven to be very adept. The group agreed that the Soviets fear they may not be able to remain competitive in the high technology realm of space and space-based weapons if US technology is unconstrained. On the other hand, it could be argued that Gorbachev would be able to use the SDI threat to mobilize political and economic resources in support of his urgency to modernize the economy. There is an inherent tension between these two approaches. Gorbachev is interested in increasing technological innovation, but he is also concerned with constraining

and regulating the foreign pressures which make innovation all the more necessary.

While it was agreed that Gorbachev has an interest in reducing the military burden on the economy (estimated to be around 20 percent of GNP when the costs of maintaining its Eastern Europe empire are included), it was also noted that the ability to divert resources from the military to the civilian sector is a broader issue than SDI alone and that the United States may have little leverage in effecting that outcome.

The second major issue in the East-West relationship that was discussed concerned the international economy and Soviet economic reform. The group agreed that Gorbachev is interested in integrating the Soviet economy with the world economy to a greater degree than ever before in Soviet history. Indeed, one view was that it is likely that Gorbachev's modernization program requires greater interaction with the rest of the world. This is evidenced by the recent legislation concerning the reorganization of foreign trade, which is to take effect January 1, 1987, and on joint ventures with socialist and nonsocialist countries. Other evidence also indicates that the world economy has become increasingly important to the Soviets. For example, they have broached the issue of applying for membership to the International Monetary Fund (IMF), the World Bank, and the General Agreement on Tariffs and Trade (GATT); they are discussing cooperation with OPEC on oil prices and are considering floating a Eurobond.

Three major objectives are being pursued through these initiatives: the procurement of credits, access to and acquisition of technology, and the opening of markets for Soviet exports. A number of participants argued that a major aspect of the reform strategy is to increase Soviet manufactured exports by bringing the quality of goods, and Soviet technology in general, up to world standards.

There were differing views expressed on the question of the importance of western technology to the modernization program. One participant argued that western technology was essential. The Soviets need high quality precision tools than can only be obtained from the West. This need for western tools and components will likely decrease over time, but for this initial period of the modernization program, such acquisitions are crucial. Others disagreed, arguing that the Soviets need to correct their material-technical supply bottlenecks; that too much technology cannot be absorbed by the system; and as indicated by the experience in the 1970s, some of the technology and equipment purchased does not fit, or is not applicable to, the Soviet system.

In conclusion, the group agreed that the Soviets favor opening up to the world economy, but there are objective problems and pitfalls which will be encountered along the way. Potentially one of the most severe is a political problem: Gorbachev needs to show beneficial results from his program in the short term, but most of his initiatives, including greater interaction with the world economy, need to be viewed over the long term in order to appreciate their dividends.

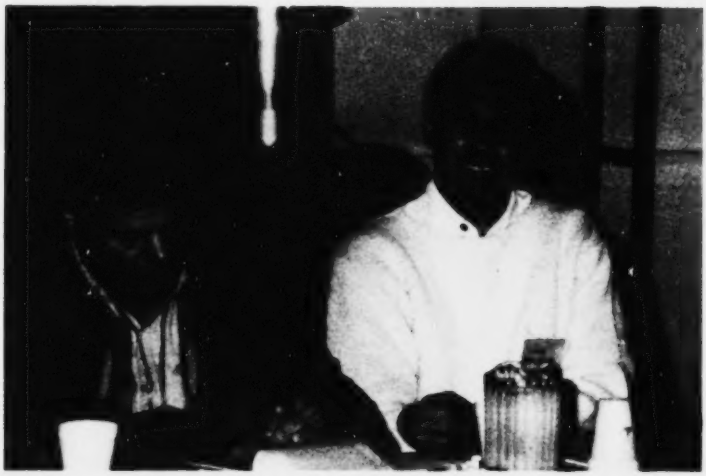
## Economic Reform and US Policy

How should the United States view economic reform in the Soviet Union? What leverage does Washington have to influence the reforms in a direction that would benefit long-term US interests and perhaps improve bilateral relations?

One of the most important considerations concerning how the United States should view Soviet economic reforms is the issue of the nature of reform and its effect on the system. There was disagreement over what type of reform the Soviet Union is moving toward and the effects that such a reform would have on Soviet society and the system at large. A number of participants argued that the prospects for a liberalizing effect of the reforms were quite good; indeed, "radical reforms" could not help but have a liberalizing effect. Others argued that there are strong societal and international pressures for conservatism which do not portend well for liberalization in the Soviet Union. For example, the need to maintain the Soviet empire in Eastern Europe, the "internal empire" in the Soviet Union (meaning the multiethnic nature of Soviet society), and security imperatives and the international environment all are factors which exert pressure on the leadership not to move too far or too fast lest the consequences become unmanageable.

There was, however, consensus that while it is far from axiomatic that economic reform will equate with political liberalization in the Soviet Union, reforms which serve to change the character of the regime would be in the interest of the United States. There was optimism expressed that such a scenario might not be implausible. The historical international, political, and economic conditions which gave rise to the worst features of the Soviet system are no longer in existence. In the absence of these objective pressures, the system might evolve toward a more "normal" and "benign" state, one which would compete in a more historically traditional manner, that is, through economic competition rather than territorial expansion and political oppression. On the other hand, reforms which merely changed the system at the margin, those which made it more efficient and productive without changing its nature, were not considered to be in US interest.

*Soviet Economy Participants*



*Opportunities to exchange ideas*

It was generally agreed that at best the United States could exert only marginal influence on the course of Soviet reforms. In principle, it was felt that Washington should promote a linkage between economic reform and political liberalization by conditioning US involvement and interaction with the Soviets to bring about the desired ends. In general, such ends would be anything which promoted greater openness and a freer flow of information into and out of Soviet society. At the same time, it is important not to pursue goals too ambitious for the limited instruments at hand. The United States cannot, for example, use its very limited influence to induce the Soviets to take actions they regard as inconsistent with their national sovereignty.

The central problem to US policy was recognized to lie in the tension between that which is possible and that which is politically feasible. Given its modest ability to influence Soviet development, it was suggested that the most prudent US course might be neutrality, neither subsidizing the Soviets nor attempting to retard their economy's development. However, the group agreed that such a course was politically problematic for a variety of reasons. First, due to the temptation to use economic carrots and sticks for political purposes, such a policy would be difficult to sustain; in addition it is unlikely to be politically salable to US public opinion. Second, such a policy would encounter congressional opposition; thus political will becomes a crucial factor.

Finally, such a policy depends on the international environment and political context in which it would be implemented. For a neutralist policy to be politically feasible, the international context would have to remain calm and relatively conflict free. Recent history has shown, however, that conflicts involving Third World nations, allies, or other conflictual incidents in which vested superpower interests clash are many. Often economic and political relations can be disrupted through this international discord. In some cases, even though such conflicts lie only at the periphery of the most vital national security interests, the nature and intensity of the superpower rivalry leads to the introduction of these events into the center of the superpower relationship. Thus, for example, as with the Soviet invasion of Afghanistan, US international policy becomes victim to the need to assuage and mollify the vicissitudes of domestic opinion.

## Conclusion

The Soviet Union has embarked upon a reform program which may lead to fundamental changes in the Soviet system. The reforms being contemplated are in an early stage and have not gone very far

to date. Indeed, the future of reform in the Soviet Union may be closely tied to the political future of Mikhail Gorbachev, and the United States should not underestimate the degree or extent of political resistance. Nor should rapid change in the Soviet Union be expected since many of the problems which confront the Soviets are systemic in nature and can only be addressed over the long term. It is also possible that significant political change will accompany economic reform. However, there is little direct influence which the United States can exert over the process. Perhaps the wisest course for US policy would be to remain cognizant of its limited leverage and to temper the political temptation to impose unreasonable conditions on the relationship in an effort to exert greater influence over the reform process in the Soviet Union.

*Susan Kaufman Purcell, Chair* *Daniel Burton, Rapporteur*

*Mexico Discussion Group*

# US POLICY TOWARD MEXICO

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**Discussion Report:**

## Introduction

The Mexican economic turmoil triggered in August 1982 with the announcement that Mexico was unable to meet its foreign debt obligations has placed severe strains on the Mexican political system and US-Mexican relations. The current situation is fundamentally different than anything Mexico has faced since the Institutional Revolutionary Party (PRI) was founded in 1929. Marginal economic tinkerings and political posturing cannot solve it. Real economic reforms within the system are necessary, and Mexico must recognize that it cannot simply expect its problems to be solved by the United States.

In analyzing Mexico's economic situation, the group repeatedly addressed a fundamental question: Will the stagnation of the Mexican economy lead inevitably to the breakdown of the Mexican political system? The prevailing view was that although current economic pressures are more severe than anything Mexico has faced in the past, the Mexican political system has already weathered a series of crises and is likely to withstand this one as well. In the process, however, the political system will probably undergo a significant evolution.

## A Sense of Crisis

Mexico's current economic difficulties differ from those it has

faced in the past both in severity and circumstance. The severity of the crisis stems from two unprecedented sets of pressures: 1) the need to generate $9-10 billion per year to service Mexico's approximately $100 billion foreign debt and 2) the need to create 800,000 new jobs each year for new entrants into the Mexican labor force.

Mexico has limited or no control over the circumstances surrounding the current economic crisis. Mexico's ability to service its foreign debt is determined to a great extent by oil prices, interest rates, and foreign exchange rates; all of which are influenced by international markets. In addition, the need to create massive numbers of new jobs each year is a result of past population increases.

These pressures are compounded by the fact that whereas in the past Mexico has enjoyed general price stability, today the country is beginning to slide toward hyper-inflation. In 1986 its inflation rate is expected to surpass 100 percent. Real wages in Mexico have declined by some 40 percent over the past four years, and the move to index wages to inflation is only likely to exacerbate the wage-price spiral. Together, these events have created a new kind of economic crisis—one that is not only deep-seated but also continuous.

The group agreed that there are only two ways out of this economic conundrum: 1) genuine reform of the Mexican economy and 2) continued increased foreign lending to Mexico. Over the past four years, there has been an attempt to link these two alternatives by making new bank loans conditional on internal economic reforms. The group emphasized that conditionality should continue to be an integral part of efforts to solve Mexico's economic problems.

Despite the promises accompanying the new international loans that have been pumped into the Mexican economy, however, domestic economic reforms have not taken root. Some members of the group believed that the initiatives taken so far simply need to be given more time to achieve results, while others believed that the government has not done as much as it could to institute genuine reform.

Privatization measures have been widely discussed, but pledges to sell off parastatal enterprises have not been kept and layoffs of public employees have been undercut by quiet rehirings. In theory, import barriers have been lowered, but in practice, controls have, if anything, been tightened in several key sectors. Supposed foreign investment incentives have not resulted in a reduction of the legal restrictions governing foreign investment, and disinvestment by

Mexicans remains a serious problem. The public sector deficit has been significantly reduced, but savings were achieved largely by reducing subsidies and cutting back on infrastructure investment rather than by trimming Mexico's bloated bureaucracy or clamping down on corruption. The only initiative to date that holds any real promise for economic reform is Mexico's decision to accede to the General Agreement on Tariffs and Trade (GATT), which should gradually lower Mexican trade barriers. Even here real progress is unlikely in the near future.

These shortcomings raise the question of whether Mexico will continue to operate in a statist economic mode, albeit a more modernized one, or whether the economic crisis will generate genuine efforts to liberalize the economy. While affirming that statism is entrenched in Mexico, the group also stressed that it will be difficult to resist some measure of economic liberalization. Nonetheless, it was widely agreed that the reform measures implemented under President Miguel de la Madrid Hurtado have been inadequate. Just why this is the case is unclear.

The group discussed two reasons for the lack of progress. First, government and business in Mexico have traditionally had a cozy relationship, and it is doubtful whether either is genuinely interested in changing it. While the PRI and the Mexican state enjoy an economic spoils system based on widespread corruption, the private sector enjoys protection from foreign competition. As a result, there is entrenched bureaucratic resistance to any reform. Closely related to this is the fact that President de la Madrid does not have a strong popular or institutional base. He has been criticized for not exercising strong leadership, but it is uncertain whether he could push through any fundamental reforms even if he were convinced of their importance. Second, there is simply no clear idea of what should be done. Unable to define the national interest in terms of concrete programs, President de la Madrid has cloaked his office in appeals to nationalist sentiments, just as other Mexican presidents have done before him. Consequently, exhortations about Mexico's dignity, sovereignty and self-determination replace the specific programs and long-term commitments necessary to rebuild the economy.

Although Mexico's motives and goals may be murky, the group agreed that the United States' interest in Mexican economic reform is clearcut. The United States cannot continue to excuse Mexico for its unwillingness to press forward with genuine economic reforms that will lay the foundation for sustained economic growth. Inefficient parastatal enterprises should be sold; import licenses should



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*Mexico Group Participants*

be cut back; concrete changes in foreign investment laws should be enacted; and investor confidence should be restored so that capital flight can be reduced. Without these reforms, the Mexican economy will remain underdeveloped.

So far, Mexico has attempted to meet the twin challenges of foreign debt and the need to create new jobs by extensive reliance on the United States. Although the United States has an important role to play, Mexico must also take the initiative.

Despite the up to $7.7 billion in new loans that foreign commercial banks agreed to lend Mexico in October 1986, it was strongly emphasized that new commercial bank lending to Mexico cannot continue. There is little hope that the new loan package, which will push Mexico's foreign debt to over $110 billion, will do more than tide Mexico over for a few years while it attempts to get its economic house in order. Mexico cannot expect to meet its debt service obligations indefinately by continued international borrowing. Debt restructuring must be linked to conditionality, and Mexico must begin to institute the economic reforms that will provide the basis for long-term economic growth.

Concerning the need to create new jobs, the group stressed that the United States cannot be expected to welcome ever-increasing numbers of Mexican immigrants just because Mexico finds illegal migration a convenient substitute for domestic job creation. Mexico must create 800,000 new jobs annually just to provide employment for the new Mexicans entering the labor force. In this context the 300,000 Mexicans who migrate to the United States each year to work represent an important safety valve for the Mexican economy. When it is considered that US wage levels are three to four times higher than Mexico's and that many migrant workers send their wages back to Mexico to support family members, the net benefit to the Mexican economy is actually much greater. Although the tighter US immigration laws recently passed are very controversial, the group felt that Mexico has no incentive to act on the immigration issue unless the United States tightens its restrictions.

In sum, although external assistance can help, the need for internal rehabilitation of the Mexican economy is inescapable. Even if bank loans to Mexico are replaced by government capital from the United States, Japan, and West Germany, specific quid pro quos will be demanded that will force Mexico to reform its economy. Additionally, even if the tougher new US immigration law is only marginally effective, it will still exacerbate Mexico's unemployment problem by restraining the exodus of illegal migrant workers and thereby force Mexico to institute domestic economic remedies.

Mexico would be better off facing difficult economic choices squarely and implementing economic reforms now rather than waiting for its economic crisis to be compounded by international impatience.

## Political Pressures

Although the group emphasized the pronounced impact that the economic crisis is having on the political system, the prevailing opinion was that Mexico is probably not headed for a political breakdown in the near or medium term. A "breakdown," it was stressed, is the final result of a long process that has many steps and can be influenced along the way. The more likely scenario involves changes in the way the political system is organized and works. The Mexican political system has proven remarkably resilient in dealing with economic strains and tensions in the past, and although the current crisis is without precedent, it is premature to predict that a political collapse is imminent.

Economic dislocation has already led to some significant political developments. The polarization of the elites that was begun by the excesses of the Echeverria and Lopez Portillo administrations today runs much deeper. The traditional compact between Mexican businessmen and politicians held that the private sector was free to make substantial profits as long as it stayed out of politics. This consensus, however, has been broken by the enduring economic crisis that has stripped firms of profits, eroded workers' real wages, and tipped the balance to the state at the expense of the private sector. The political system has also been affected. In the past, elections served to confer the PRI with legitimacy and to convey stability. Now, however, because economic hardship and de la Madrid's push for political reform have sparked heightened dissent and, therefore, heightened repression, elections serve notice of political illegitimacy and instability.

The 1983 municipal elections in the northern state of Chihuahua, which were widely believed to be honest, marked a turning point. Economic discontent and dislike of the PRI were so prevalent during these elections that the Party of National Action (PAN), which draws support mainly from the private sector and urban middle classes in the north, not only gained control of the seven main city councils but also won the elections for mayor in the state capital and in Ciudad Juarez, which borders the United States and is the fourth largest city in Mexico. In 1984 the PRI responded to these defeats by putting its ballot-rigging machine back into full swing, and when protests of electoral fraud erupted in Coahuila, President de la Madrid called in the army.

While some members of the group saw these developments as evidence of the fact that the PRI is becoming more authoritarian and willing to go to any extreme to maintain its power, others were not so sure. The PRI has not resorted to widespread repression in the past, and since the Mexican military is relatively small, the PRI's ability to implement such a campaign is limited.

These political developments are indicative of the increasing disparity between the north and the south. The most dynamic sectors of the Mexican economy are in the north and are increasingly integrated with the United States. These sectors are beginning to resent the political control exercised by the south. As a result, Mexico faces the threat that it will be split into a modern, affluent, relatively democratic north that is closely aligned with the United States and a backward, destitute, undemocratic south that remains resolutely independent.

It is unclear whether Mexico can open its economy without significantly opening its political system. Demands for democratization predate the 1982 crisis and have been given new impetus by Mexico's economic difficulties and other Latin American nations' moves toward more democratic forms of government. Those calling for political reform argue that Mexico has simply outgrown the PRI's one-party system. They claim that what was appropriate for a rural Mexico of twenty million is unsuited for a largely urban Mexico of eighty million where political events are closely monitored by the media.

## Recommendations

1. Past discussions of US-Mexican relations have tended to emphasize the mutuality of interests between the two countries. Realism requires a recognition that there are a great many conflicting interests that must be faced squarely, discussed openly, and managed in a businesslike manner. The preponderant size and strength of the United States creates an obvious asymmetry between the two countries, but the fact that the two economies are extensively and irrevocably integrated must be accepted. Mexico cannot continue to hide behind jingoistic nationalism and wait for its domestic problems to be solved by the United States. Instead, a sense of joint responsibility is necessary. There are indications that Mexico's attitude toward the United States is beginning to change as a new generation of Mexicans assumes leadership roles and a new realism that focuses more on the future than the past takes root. Participants were encouraged by this trend.

2. Mexico's willingness to accept its share of responsibility for bilateral problems with the United States seems to follow unilateral US decisions that force Mexico to act. In this regard, independent US actions are more effective than exhortations. Mexico's economic problems predate its debt crisis, and the United States must create accumulating pressure on Mexico to reform its economy. Soft options only delay necessary reforms. To the extent that economic reform and liberalization lead to a decentralization of decision making, they may also lead to more open channels of political representation; the United States should encourage this trend. The group was divided on the wisdom and potential benefits of pressing specifically for democratic reform in Mexico.
3. Little steps can add up to big improvements in US-Mexican bilateral relations, and there is a need for more government and nongovernment exchanges between the two countries. Informal military contacts should be broadened; student exchanges and academic centers should be expanded; and sectoral communications should be increased. Participants were pleased with recently announced US programs to expand research on Mexico but acknowledged that these efforts will not be effective unless they are focused. In particular, more research needs to be devoted to such issues as the role of the PAN, the changing nature and evolving role of the Mexican elites, economic complimentarities, and long-term assessment of US labor needs as they relate to immigration.
4. Capital flight and a lack of investment remain serious problems for Mexico and must be addressed. The United States cannot command expatriated capital to return or force greater investment in the Mexican economy. Mexico alone can solve these problems by creating a stable domestic environment that promotes confidence in the future of the Mexican economy. Welcoming greater foreign investment is an important part of this process, and less ambivalence on the part of the Mexican government is required.
5. Foreign debt remains a critical problem for Mexico and other developing nations. The United States should take the lead—in concert with multilateral development banks, creditors, and other debtor nations—to introduce a reorganization of domestic economic policies in debtor countries that go hand in hand with a reduction of the debt burden. This process is key to restoring Mexican economic growth. The modalities of debt reduction determined for Mexico could also find selective application elsewhere.
6. The United States should schedule an early visit to Mexico by a high-ranking official to discuss with the Mexican foreign minis-

ter the new US immigration and drug laws. This mission would represent an attempt to share directly with Mexicans US approaches to issues intimately involving the two countries. Mexico can then begin to address these issues domestically with full knowledge of the US position. Other areas where the two countries can cooperate more closely should also be explored since these kinds of confidence-building measures can help improve the overall state of US-Mexican relations.

*Theodore Hirsch, Rapporteur* *Leonard Spector, Chair*

*Nonproliferation Discussion*

# THE NONPROLIFERATION REGIME AND THE PROBLEM COUNTRIES: BRIDGING THE GAP

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**Discussion Report:**

## Introduction

Recent developments in nuclear nonproliferation present an intriguing paradox: whereas the nonproliferation regime has exhibited impressive vitality, the nations of immediate proliferation concern—Argentina, Brazil, India, Israel, Pakistan, and South Africa—have continued their march towards, and, in some cases beyond, the nuclear weapons threshold. Further advances by these problem countries, especially nuclear testing or open declaration of nuclear weapons status, could have grave consequences for the efficacy of traditional nonproliferation policies.

The challenge put to the group, then, was how to bridge the gap between the burgeoning nonproliferation regime and the undeterred problem states. In addressing this question, the group examined mechanisms for enhancing the nonproliferation regime, reducing the political and military concerns that are motivating the emerging nuclear states to advance their nuclear weapons programs, and intensifying bilateral diplomatic efforts to combat proliferation.



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## The Regime

Broken into its salient components, the nonproliferation regime appears to have flourished in recent years. The statements emanating from the 1985 Non-Proliferation Treaty (NPT) Review Conference reflected the widespread belief among member states in the value of retaining and reinforcing the treaty. Although an informed member of the group described this as a "fragile consensus," one nearly pried apart at the review conference by longstanding regional rivalries such as that between Iran and Iraq, political confrontations were judged less vitriolic than at the 1980 session. The ratification of the NPT in late 1985 by North Korea, a less developed country of some proliferation concern, also bears testament to the regime's vitality.

The International Atomic Energy Agency (IAEA) was praised by the group as an honest broker in the aftermath of the Soviet reactor accident at Chernobyl, serving as the forum for candid Soviet disclosures regarding the causes of the disaster and producing a pair of conventions providing for early warning and prompt international response in the event of future nuclear safety emergencies. While the agency's crisis performance clearly benefited its nonproliferation role by adding to the IAEA's prestige and credibility, some in the group voiced concern that the agency's high profile in response to Chernobyl may increase pressure for it to take on a supranational safety inspection role. Such a role would be difficult to carry out successfully and could compete with the IAEA's "safeguards" functions for scarce resources. Others discounted this threat, voicing skepticism that many countries would subscribe to an external nuclear safety oversight regime and pointing to the possibility of providing additional resources to the agency should its functions diversify.

Another development that augurs well for the agency was the failure of the Arab states to mount more than a *pro forma* campaign to impose sanctions against Israel at the September 1986 IAEA General Conference. Knowledgeable group members cautioned, however, that new revelations depicting Israel's nuclear arsenal as much larger and more powerful than heretofore believed came on the heels of the IAEA meeting and, like the Israeli raid on Iraq's Osiraq reactor in 1981, may precipitate a showdown at the next IAEA General Conference. More generally, the group recommended that the US Congress sustain its funding of the agency.

The group was also encouraged with respect to nuclear supplier controls. The 1976 Nuclear Suppliers' Guidelines are adhered to by Australia, Canada, Japan, the Soviet Union, the United States, and the major European nuclear suppliers. The guidelines require recip-

ients to accept IAEA safeguards on transferred nuclear materials and require suppliers to exercise "restraint" in exporting "sensitive" items used in enrichment and reprocessing (the technologies that can produce nuclear weapons materials). A major concern has been the prospect of an emerging "second tier" of nuclear suppliers, industrializing nations capable of and willing to make nuclear exports to the problem states without applying the 1976 guidelines. Fortunately, this class of rogue suppliers does not appear to have materialized. Indeed, the adherence of countries like Argentina, South Africa and, since 1984, China to supplier norms departs sharply from a worst case scenario. Despite this seemingly heartening trend, one participant stressed that unsafeguarded nuclear transfers to the problem countries may be taking place but simply have gone undetected in the West. Others pointed out that emerging suppliers, even if they require safeguards, might be more disposed than the formal members of the Nuclear Suppliers Group to make transfers to nations of prime proliferation concern. China's recent nuclear cooperation agreement with Pakistan, which provides for the application of IAEA safeguards to all transferred equipment and material, was cited as an example.

Overall, the nonproliferation regime was endorsed by the group as a valuable mechanism for stemming proliferation by allaying fears of nuclear arming that lead regional rivals to develop nuclear weapons and by impeding nuclear aspirants from achieving their objective. Given the perception by many nonnuclear weapon states that the nonproliferation regime is discriminatory in light of the unbridled US-Soviet nuclear arms race, the group exhorted the superpowers to make rapid progress in arms control and to achieve testing restraint. Some stressed that deep cuts in nuclear arsenals should be made a precondition for testing restrictions, whereas others urged the United States to seize the opportunity for an immediate testing curb, possibly by capitalizing on the Five Continents Initiative—an offer by six Third World countries, including India and Argentina, to verify a superpower comprehensive test ban (CTB).

The centrality of the superpowers' nuclear arms buildup to current proliferation activities remains a matter of much debate. One specialist in South Asian affairs termed the vertical nuclear arms race the "principal compulsion" for India's interest in nuclear arming, whereas another felt this linkage was vastly overrated, pointing instead to regional security threats from China and Pakistan. On the value of a CTB, many felt the cessation of nuclear tests would increase the political costs to the problem countries of pursuing atomic weapons. It was less clear, however, whether a ban on testing would place significant technical restrictions on weapons

development. One group member cited Israel's purported advances toward "boosted" atomic weapons as evidence of the progress possible with little or no testing data. It was pointed out, however, that Israel may have been privy to French testing information in 1960. Other participants believed the questions of weapons sophistication and reliability in the event of a CTB to be a red herring, stressing that the purpose of bomb development in the problem countries is essentially to deter regional adversaries. For this "a mysterious Mona Lisa smile," that is, an undeclared and untested nuclear capability, is enough.

Some group members questioned the prudence of pursuing nonproliferation in the problem countries through strategic arms control. A rather fundamental concern was that a US-Soviet arms accord be in the United States' greater security interest—not just beneficial to nonproliferation. More subtle was one participant's fear that superpower weapons reductions might, in fact, create new problem countries, even while it discourages others. An agreement on deep cuts or the eventual elimination of superpower nuclear arsenals like that proposed at Reykjavik, he argued, might prompt advanced industrialized nations that rely on the US nuclear umbrella, like West Germany and Japan, to pursue an indigenous nuclear deterrent. Finally, it was noted by some that eliminating US-Soviet competition in the problem regions would do far more to bolster superpower nonproliferation initiatives than leashing the arms race.

## The Problem Countries

### South Asia

The case of South Asia vividly reflects the hiatus between existing nonproliferation institutions and the problem states. Whereas the gravity of nuclear arming in India and Pakistan—neighboring states that have gone to war with each other three times in the past forty years—is widely recognized, nonproliferation mechanisms to date have failed to arrest this incipient nuclear arms race. The United States and the Soviet Union are deeply involved in the region through security relationships and, in the case of the Soviets in Afghanistan, force projection. Accordingly, the group devoted considerable attention to the interaction of nonproliferation and East-West competition, examining whether the two are reinforcing or competing elements of US foreign policy and whether a reordering of policy priorities is needed if, indeed, they do compete.

Much of the group's discussion of these issues focused on a recently negotiated $4.02 billion US security assistance package for

Pakistan that will be submitted for congressional approval next year. Some contended that the threats to terminate this aid should Pakistan test or "possess" a nuclear device (as now provided by US law), along with the security benefits to Pakistan of receiving sophisticated conventional armaments that may alleviate the compulsion for nuclear arming, have kept Pakistan from crossing these important proliferation thresholds. Others suggested that it is Pakistan that possesses the leverage in the relationship. By hovering near these thresholds and threatening to cross them, Islamabad is able to obtain advanced weapon systems from the United States while quietly continuing to expand its nuclear capabilities.

Some participants recommended consideration be given to additional, carefully crafted legislation which would threaten to terminate US assistance at some point prior to Pakistan's "possession" of a nuclear device, though without triggering an aid cutoff at the time of passage. Furthermore, the group recognized that US conventional arms sales to Pakistan can provide grist for anti-Pakistan, probomb elements in India. Participants recommended that the United States carefully assess the impact in India as it decides which weapon systems to provide Pakistan (F-16 combat aircraft and AWACS, Airborne Warning and Control System, are known to be of concern to New Delhi). Some members of the group hastened to add, however, that for military assistance to be sufficient to reduce the security concerns motivating Pakistan's nuclear weapons program, sophisticated weaponry must be provided. This need is especially acute in light of the advanced Soviet weapons supplied to India and the forbidding Soviet presence on the Pakistan-Afghanistan border. On a related problem, it was suggested that sales of advanced dual-use aircraft (that is, aircraft capable of carrying both conventional and nuclear ordnance) to the problem countries should receive greater attention, particularly in the case of South Asia.

Beyond manipulating US aid toward nonproliferation ends, it was agreed that the United States should encourage confidence-building measures between India and Pakistan in the hope of reducing reactive pressures in both nations to pursue or expand nuclear weapons capabilities. One such measure that received favorable comment from some participants was a variant of a nuclear weapons-free zone in the Indian Ocean region, possibly including restrictions on the development of foreign nuclear bases there, a major concern to India. A number of participants emphasized, however, that specific criteria, including preservation of naval rights of transit, would have to be met before the United States could endorse such a proposal.

Mindful of the range of Pakistani confidence-building proposals spurned by India in recent years, including an offer for mutual inspections of nuclear facilities, the group agreed that the superpowers should press India to be more willing to discuss regional nuclear arms control issues with its western neighbor. One participant pointed out that questions concerning Pakistan's good faith and the exclusion of China from proposed confidence-building measures allow India to justify its obstinance. The group agreed that the United States and the Soviet Union should address this latter obstacle to Indian acquiescence by fostering an accommodation between New Delhi and Beijing. Addressing this dimension of the Indian security environment, one participant called on China to offer India convincing assurances that it will abstain from providing Pakistan with sensitive nuclear weapons-related assistance and that it will not redeploy its nuclear forces against a nonnuclear India. A stable resolution to the longstanding Sino-Indian border dispute was seen as instrumental in bringing about a broader bilateral reconciliation.

Finally, one group member outlined an innovative nonproliferation strategy, applicable in South Asia and elsewhere, to complement existing measures. He suggested that the unenviable political/military ramifications of possessing nuclear forces should be underscored. A new nuclear nation would be confronted with a number of daunting tasks, he pointed out, including refining strategic doctrine, ensuring the security of nuclear forces, selecting an appropriate basing mode, developing a command and control system, guarding against a preemptive attack, coping with the ambiguity of dual-use weapon systems, and mediating interservice rivalries. In the case of Pakistan, for example, a nuclear capability aimed at offsetting India's conventional superiority might quickly lose credibility in a crude, "city-busting" configuration. A nuclear force that permitted a more flexible response, however, would require development of a range of weapon yields, a reliable command and control system, and a variety of modes of delivery, to name but a few obstacles. In India, introducing nuclear weapons into the armed forces would require reckoning with the simmering Sikh-Hindu rivalry within the Indian military, along with the traditional interservice competitiveness that pervades armed forces around the globe. Such complexities are strong disincentives to going nuclear, the participant stressed, and should be highlighted to problem states who may be focused on simply "getting the bomb."

This approach was widely extolled as a valuable contribution to nonproliferation strategies. Some members pointed out, however, that it contained an objectionable element of paternalism. Another pitfall, one group member observed, is that this approach is simply

"too intellectual" given India's and Pakistan's visceral security concerns.

**Southern Africa**

The group found South Africa, the only nation in its region capable of nuclear arming before the turn of the century, a unique and troubling case. It is set apart from many of the other problem countries in that its nuclear weapons capability is seen primarily as a political instrument intended to demonstrate Pretoria's indomitability in the face of a host of competitors—including domestic opponents on the right and left, a "front-line" of hostile neighbors, and an increasingly antagonistic international community.

The United States, it was agreed, possesses little leverage to force an end to South Africa's nuclear weapons program, and that which does exist has been partially depleted in efforts to combat apartheid. Hence, recent US nonproliferation initiatives have sought, with diminishing success, to encourage voluntary South African restraint. One participant discerned an evolution in Pretoria over the past twelve to eighteen months from a government committed to marginal, piecemeal reform of its racial policies to one convinced that the time has come to "circle the wagons" and appease its most hard-line Afrikaner critics. Correspondingly, Pretoria's willingness over the past several years to grant nonproliferation concessions, such as its adherence to nuclear supplier guidelines and its payment of outstanding IAEA dues, appears to have eroded in recent months. Evidence can be found in the hardening of its position in its negotiations with the IAEA on the application of safeguards to its semicommercial-scale enrichment plant. This combination of scant US leverage and ebbing South African restraint led the group to a grim depiction of nuclear nonproliferation prospects in the region.

Were South Africa to declare its nuclear weapons status or test a nuclear device, as it prepared to do in 1977, the damage to the nonproliferation regime would be substantial. The group noted that such an action could precipitate widespread defections from the NPT by black African signatories, perhaps on the order of twenty to thirty member states. Although none of the nations that could be expected to withdraw are of pressing proliferation concern, the blow to the regime's prestige that would result from such mass desertion should not be discounted. Most participants believed the impact of a South African nuclear test or declaration on other problem countries would be modest, although one group member suggested that states with deliberately ambiguous nuclear weapons programs might interpret South Africa's ascension to the nuclear club as a blow to their own status and accordingly might follow suit.



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There was little consensus on policy recommendations. Should Pretoria undermine nonproliferation norms, the possibility was raised of applying even more stringent sanctions against South Africa than those now being applied because of its racial policies. Recent antiapartheid-sanctions legislation in the US House of Representatives and threats by several states to break diplomatic relations with South Africa after its nuclear test site was discovered in 1977 are illustrative of added pressure that might be brought to bear on Pretoria. The group was divided on the desirability of further sanctions, however. The group did agree that more attention should be given to the consequences of radical forces inheriting South Africa's nuclear infrastructure through revolution or coup d'etat with an eye toward crafting an efficacious US strategy to control and respond to such a succession.

**The Middle East**

The group observed that the United States and Israel appear to have reached a *modus vivendi* on the nonproliferation front, whereby Washington avoids confronting Jerusalem about its undeclared nuclear arsenal provided Israel keeps its nuclear weapons activities under wraps. A number of participants expressed dismay at this tolerant US stance. It was recognized, however, that the arrangement permits the United States to pursue other interests in the region and at least causes less damage to the nonproliferation regime than might result from overt Israeli nuclearization. The arrangement does not, however, exert significant restraint on the development of Israeli nuclear weapons, as evidenced by a recent London *Sunday Times* report asserting that "Israel now ranks as the world's sixth most powerful nuclear power." According to the article, Israel has built between one hundred and two hundred nuclear weapons—not the twenty-five or so generally assumed—from plutonium extracted from spent fuel at an underground French-supplied reprocessing plant; the facility was said to have been secretly built almost two decades ago. The article also stated that Israel began producing materials in the early 1980s for "boosted" atomic weapons—A-bombs ten times more powerful than those used in World War II.

Given this less than reassuring record, a number of group members addressed the possibility of bringing added nonproliferation pressure to bear on Israel without damaging its intimate relationship with the United States. One approach, it was suggested, was for Washington to stress that Israeli nuclear advances put the United States in an untenable position at the IAEA: If the organization imposed sanctions against Israel, the United States might feel compelled to withdraw in support of its Middle East ally, a step that

could greatly weaken the institution. The United States could also underscore that such advances are disadvantageous to Israel because they are likely to prompt the Soviet Union to increase its security assistance to its own allies in the region. This persuasion, some suggested, could be backed up by threats to deny Israel new areas of cooperation with the United States, such as SDI and a free-trade zone, if Israel persists in expanding its nuclear forces. Another strategy urged by some participants was for the United States to promote a nuclear weapons-free zone in the Middle East, an objective that has been embraced, at least in principle, by Arabs and Israelis alike. Finally, many felt that the United States and the Soviet Union should be more mindful of the proliferation impact of provocative conventional arms transfers. In this vein, the transfer of advanced missiles from the Soviet Union to Syria, dubbed by one group member as a "quantum leap" in Soviet assistance, is particularly troubling.

A few group members were willing to go further in giving nonproliferation initiatives primacy in the US-Israeli relationship. One participant recommended that the United States declare its intentions to terminate its aid relationship with Israel unless Jerusalem renounces its nuclear option. Many group members were quick to point out that this would entail a sharp departure from the current tenor of bilateral relations, recalling that the United States continued to supply F-16 aircraft to Israel (after a brief suspension) in the aftermath of the 1981 Israeli raid on Iraq's Osiraq research reactor. Some of these participants were unwilling to endorse such a shift in US policy, pointing out that even linking less fundamental elements of US-Israeli ties to Jerusalem's nuclear program would be a major departure in existing relations between the two countries.

Should Israel detonate a nuclear device or otherwise assert its nuclear capabilities, the current US-Israeli *modus vivendi* would enter a period of flux. One possibility that was raised deserves mention for its novelty, although a number of participants considered it far-fetched: Israel, in declaring or demonstrating its nuclear capability, might assert that it is in fact a "nuclear weapon state" as defined by the NPT, thereby lifting the restrictions on its nuclear weapons program without undercutting the nonproliferation regime. Since the NPT defines a nuclear weapon state as "one which has manufactured and exploded a nuclear weapon or other nuclear explosive device prior to January 1, 1967," Israel, in an ironic twist, might choose to acknowledge it was a joint participant in France's first nuclear test in 1960, as has been alleged.

**Latin America**

The nuclear weapons programs of Argentina and Brazil, while

not altogether dormant, appeared to the group to pose less of a proliferation threat than they did as recently as a year ago. This was attributed to a confluence of factors including the advent of civilian governments in both nations, the budget constraints of economic austerity measures, and a series of regional confidence-building proposals broached by Argentine President Raul Alfonsin which reflect a broader Argentina-Brazil rapprochement. Of particular importance was a November 1985 summit between Alfonsin and Brazilian President Jose Sarney yielding a joint declaration on nuclear policy and establishing a bilateral commission to pursue the Argentine proposal for mutual inspection of nuclear facilities. The United States, it was agreed, played only a peripheral role in this process, and participants counseled a similar hands-off policy as long as prospects for nonproliferation in this problem region remain encouraging.

This progress, however, should not be taken as a cue for complacency. Neither Argentina nor Brazil is bound by the Treaty of Tlatelolco, an accord providing for a nuclear weapons-free zone in Latin America, and there are indications that, should a mutual inspections agreement be reached, IAEA inspections would not be employed. This reluctance to embrace elements of the nonproliferation regime, in part due to exigencies of domestic politics, means that the regime is unlikely to be directly enhanced by this rare instance of nonproliferation progress in the problem countries. Furthermore, both Argentina and Brazil, although scaling back their overall nuclear programs, have failed to terminate their unsafeguarded nuclear activities, which have recognized military potential. This is perhaps an indication that nationalistic elements (including the military, in Brazil) still hold considerable sway over government policies.

The group's policy preference regarding Latin American nonproliferation was best summed up by one participant's cautious directive, "steady as she goes." This hands-off strategy might be augmented, should the political hurdles to mutual inspections be cleared, by the extension of US technical assistance in providing for reliable safeguards without compromising industrial secrets. Pressing Argentina and Brazil to adhere to the Treaty of Tlatelolco, it was agreed, should constitute a key provision of the US nonproliferation approach in Latin America.

## Conclusion

Despite a reduction in the proliferation threat from Latin America, the rift between the nonproliferation regime and the problem countries appears to have widened in recent years. The group had

little expectation that the problem countries would soon embrace comprehensive nonproliferation controls. However, many participants believed that the achievement of US-Soviet arms reductions as mandated by the NPT and reduced US-Soviet regional tensions would improve the atmosphere for discussions on this issue.

Addressing the motives for nuclear weapons programs in the problem states, including regional security concerns, was seen as another vital element in bridging the gap. Regional confidence-building measures and variants of a nuclear weapons-free zone (approaches that have met with some success in Latin America) were deemed worthy of encouragement—recognizing certain qualifications by some participants. Some group members believed that conventional arms transfers could mitigate the regional security concerns that prompt nations to develop nuclear arms. Others were cautious on this point, stressing that US and Soviet conventional arms transfers must display greater sensitivity to the effect of provocative weapon systems, especially potential nuclear delivery systems, on the security of regional rivals.

Finally, group members tabled a range of mechanisms by which the superpowers, through bilateral diplomacy, might influence nuclear developments in the problem states. Persuasion was seen as a valuable and relatively cost-free tool, but the termination of economic and military aid or the imposition of other sanctions as means for altering problem-state behavior proved considerably more contentious. Many in the group believed the nonproliferation role of the superpowers remains restricted by two factors: the tendency for nonproliferation efforts to be undercut by other foreign policy concerns and the apparent double standard of nonproliferation initiatives put forth by the world's foremost nuclear nations. Accordingly, the group believed that the nonnuclear advanced industrial states, such as Sweden or Japan, and developing countries should be prodded to take a more prominent role in global nonproliferation efforts.

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Affiliations are listed for identification purposes only. Participants attended as individuals rather than as representatives of their government or organization.

## Stanley Foundation Activities

The Stanley Foundation encourages study, research, and discussion of international issues contributing to a secure peace with freedom and justice. Programming reflects founder C. Maxwell Stanley's long-time concern for global security. Stanley Foundation activities include:

**Conferences** on US foreign policy and issues related to international organization are conducted each year. Small groups of foreign policy professionals from widely divergent backgrounds are invited to frank exchanges on some of the world's most contentious and significant issues. The resulting conference reports are widely distributed nationally and internationally.

**Educational Seminars** for US congressional staff members are convened annually at the United Nations and in the Washington, DC, area. The sessions focus on issues important to the United Nations and the United States.

**Policy Papers,** original essays on international issues, are published periodically and distributed nationally and internationally. Papers present practical initiatives, options, or strategies for US foreign policy or international organizations.

**World Press Review,** a monthly magazine based in New York City, features excerpts from the press outside the United States and interviews with prominent international specialists on a wide range of issues.

**Common Ground,** a radio series on world affairs, is aired weekly nationwide. Programs feature US and foreign experts discussing political, economic, military, or social aspects of international and US foreign policy issues. Cassette recordings are available for purchase.

**The Midwest Program and Educator Support** help regional groups promote global awareness and citizen involvement in peace and security issues. Planning assistance and program resources are available to schools, churches, professional and service groups, and other nonprofit organizations.

The Stanley Foundation, a private operating foundation, does not provide grants. A resource list is available.

## Stanley Foundation Publications

**US Policy and Radical Regimes,** Report of a Vantage Conference. September, 1986, 28 pp.

**The United Nations: Mission and Management,** Report of the Twenty-First United Nations of the Next Decade Conference. June 1986, 32 pp.

**Redefining Arms Control,** Report of a Vantage Conference. May 1986, 28 pp.

**US Policy Toward the Philippines After Marcos,** Policy Paper 37. Richard J. Kessler, June 1986, 24 pp.

**The US Role in Southern Africa's Future; The United States, The United Nations, and the Future; Economic Pluralism and Development; Soviet Leadership: Changes and Challenges.** Twenty-Sixth Strategy for Peace Conference Report. October 1985, 64 pp.

**Arms Control and the Strategic Defense Initiative: Three Perspectives,** Occasional Paper 36. Jerry F. Hough, Stanley R. Sloan, Paul C. Warnke and David Linebaugh. October 1985, 32 pp.

**Rethinking the North-South Relationship,** Report of the Twentieth United Nations of the Next Decade Conference. June 1985, 40 pp.

**The United Nations' Impact on International Relations,** Report of a Vantage Conference. May 1985, 24 pp. Also available in an abridged form, **The First Forty Years: A Critique of the United Nations,** 12 pp.

**The North-South Negotiating Process,** Report of the Sixteenth United Nations Issues Conference. February 1985, 24 pp.

**US Interests and the Global Environment,** Occasional Paper 35. Lynton K. Caldwell. February 1985, 28 pp.

**US-Soviet Competition in the Third World, Space Weapons and Arms Control, Objectives of US Economic and Security Assistance, The United States and UNESCO,** Twenty-Fifth Strategy for Peace Conference Report. October 1984, 64 pp.

**Peace and Security: The United Nations and National Interests,** Report of the Nineteenth United Nations of the Next Decade Conference. June 1984, 40 pp.

**The United States and the Future of the Nonproliferation Regime,** Report of a Vantage Conference. May 1984, 40 pp.

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